

Message Text

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FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC PRIORITY 4038

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E.O. 11652: N/A

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SUBJ: AIDE MEMOIRE ON PAKISTAN'S REQUIREMENTS OF EDIBLE OILS/FATS
DATED JUNE 1977; PL 480 TITLE 1 REQUEST FOR EDIBLE OIL OF
9/21/77

REF: (A) ISLAMABAD 6925 (B) STATE 182368

SUMMARY: THIS MESSAGE SUMMARIZES AND COMMENTS ON AIDE MEMOIRE, (IN PARTICULAR THE GOVERNMENT STRATEGY TO INCREASE DOMESTIC OILSEED PRODUCTION) AND SUPPLEMENTAL REQUEST FOR ADDITIONAL TITLE 1 VEGETABLE OIL ASSISTANCE (PARA 12 BELOW). TAKEN TOGETHER, THE GOP DOCUMENTS PROJECT EDIBLE OIL IMPORTS JULY 1, 1977 THROUGH SEPTEMBER 30, 1978 OF 336,000 TONS. OF THIS AMOUNT, TITLE 1 FINANCING OF 200,000 TONS IS REQUESTED BY THE GOP. WE BELIEVE THE GOP'S PROJECTION OF TOTAL EDIBLE OIL IMPORT REQUIREMENTS IS TOO LOW AND WILL BE REVISED UPWARD LATER IN THE YEAR. WE NOW PROPOSE AN INITIAL TITLE 1 ALLOCATION 100,000 TONS OF SOYBEAN OIL FOR U.S. FY 1978 AND WE ARE LIKELY TO PROPOSE AN INCREASE LATER THIS YEAR. THE FIRST 50,000 TONS SHOULD BE SHIPPED THIS FALL. END SUMMARY.

1. EAD HAS JUST DISTRIBUTED COPIES OF AIDE MEMOIRE ON PAKISTAN'S REQUIREMENTS OF EDIBLE OILS/FATS (FOR THE YEAR 1977/78) DATED JUNE 1977 TO MAJOR DONORS WHO ARE EDIBLE OIL
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SUPPLIERS. COPIES ARE BEING FORWARDED UNDER SEPARATE COVER.

2. THE AIDE MEMOIRE REAFFIRMS THE GOVERNMENT'S INTENTION TO CARRY OUT THE STRATEGY FOR INCREASING DOMESTIC OILSEED AND VEGETABLE OIL PRODUCTION PROPOSED BY AN INTER-MINISTERIAL WORKING GROUP IN MAY/JUNE 1977 (SEE REF A). THE STRATEGY -

AS SUMMARIZED IN THE AIDE MEMOIRE - UNDERLINES THE MAJOR OBJECTIVES OF INCREASING THE PER ACRE YIELD OF CONVENTIONAL OILSEED CROPS; IMPROVING VARIETIES THROUGH EXPANDED RESEARCH PROGRAMS OF HIGH POTENTIAL OILSEED CROPS; INTRODUCING AND ENCOURAGING LARGE SCALE PRODUCTION OF SUITABLE NEW OILSEED CROPS (SOYBEAN, SUNFLOWER, SAFFLOWER); PROMOTING INDUSTRIAL OIL CROPS SUCH AS CASTOR AND LINSEED; IMPROVING THE HANDLING, STORAGE, PROCESSING AND UTILIZATION OF OILSEED; AND PROVIDING ADEQUATE PRICE INCENTIVES TO FARMERS FOR THE KEY OILSEED CROPS.

3. ACCORDING TO THE AIDE MEMOIRE, THE PAKISTAN EDIBLE OIL CORPORATION (PEOC), WHICH HAS MAJOR RESPONSIBILITY FOR CARRYING OUT THE STRATEGY, WILL PREPARE A DETAILED 5 YEAR PROGRAM FOR EXPANDING DOMESTIC OILSEED PRODUCTION IN ACCORD WITH THE GUIDELINES OF THE APPROVED STRATEGY. FOR THE FIRST TIME ON A NATIONWIDE BASIS THE PEOC HAS ESTABLISHED PROCUREMENT PRICES FOR SUNFLOWER, SAFFLOWER AND SOYBEAN ATTRACTIVE TO FARMERS. (IN INFORMAL DISCUSSION THEY HAVE BEEN REQUESTED TO ADD PEANUTS IF PURPLUSES APPEAR LIKELY.)

4. IN CONNECTION WITH IMPROVING EXTRACTION EFFICIENCIES, THE PEOC IS INITIATING STUDIES (FOLLOWING UP RECOMMENDATIONS IN THE EXPERIENCE INC. COTTONSEED REPORT) TO OBTAIN BETTER UTILIZATION OF EXISTING SOLVENT EXTRACTION PLANTS. THIS UNCLASSIFIED

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INCLUDES PRICE SUPPORTS FOR SOLVENT EXTRACTED COTTON SEED MEAL.

5. A COMPREHENSIVE RESEARCH PROGRAM (PART OF WHICH ALREADY IS UNDERWAY) IS TO BE CARRIED OUT ON COTTON SEED, RAPE, MUSTARD, SUNFLOWER, SAFFLOWER, GROUNDNUTS AND SOYBEANS. RESEARCH STATIONS WILL EXAMINE OIL QUALITY AND YIELD FROM IMPROVED VARIETIES, THE RETURNS FROM OIL SEEDS COMPARED TO COMPETING CROPS, AND INSECT CONTROL.

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6. THE AIDE MEMOIRE NOTES THE IMPORTANCE OF SHIFTING CONSUMER TASTES FROM HYDROGENATED GHEE TO REFINED OIL, WHICH WOULD BE CHEAPER TO PRODUCE AND, AT THE SAME TIME, PROVIDE ADDITIONAL NUTRITIONAL BENEFITS.

7. THE AIDE MEMOIRE THEN COMPARES OIL AVAILABILITY AND USES IN THE 1976/77 CROP YEAR (JULY 1, 1976 TO JUNE 30, 1977) WITH PROJECTIONS FOR 1977/78 (SEE PARA 8 BELOW). THE AIDE MEMOIRE CONCLUDES THAT 227,000 TONS OF EDIBLE OIL WILL HAVE TO BE IMPORTED IN THIS PERIOD IN ORDER TO MEET A GHEE PRODUCTION TARGET OF 350,000 TONS WHICH WILL REQUIRE 385,000 TONS OF OIL. THE GOVERNMENT PLANS TO IMPORT (IN THIS PERIOD) 100,000 TONS OF PALM OIL AND 127,000 TONS OF SOYBEAN OIL,. BECAUSE OF BALANCE OF PAYMENTS DIFFICULTIES, CONCESSIONAL FINANCING WILL BE SOUGHT FOR AS LARGE A PORTION AS POSSIBLE OF THE PROJECTED IMPORTS.

EDIBLE OILS (000' TONS)

GOP FISCAL YEARS: ESTIMATED PROJECTED
(JULY 1 TO JUNE 30) 1976/77 1977/78

AVAILABILITY

OPENING STOCKS 129 142

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DOMESTIC PRODUCTION 172 254

COTTON OIL 71 138

RAPE 90 105

OTHER 11 11

IMPORTS 268 227

PL 480 55) 127 (PL 480 AND CCC)

CCC 44)

OTHER 169 100

TOTAL: (569) (623)

USES

INDUSTRIAL	18	30
REFINED	22	31
DIRECT	25	35
OIL FOR GHEE	362	385
(GHEE)	(329)	(350)
CLOSING STOCKS	142	142
	(569)	(623)

9. WE BELIEVE THE OILSEED PRODUCTION STRATEGY DEVELOPED BY THE GOVERNMENT COVERS THE MAJOR STEPS NEEDED. HOWEVER, WE ARE CONCERNED OVER THE GOVERNMENT'S ABILITY TO IMPLEMENT THE PLAN, INCLUDING ENSURING THE COLLABORATION AND CO-ORDINATION OF THE VARIOUS ENTITIES RESPONSIBLE FOR DIFFERENT PORTIONS OF THE PROGRAM. THESE WOULD INCLUDE THE FEDERAL MINISTRIES OF AGRARIAN MANAGEMENT, FOOD AND AGRICULTURE, THE PROVINCIAL FOOD DEPARTMENTS, AND MINISTRY OF AGRICULTURE'S PAKISTAN AGRICULTURAL RESEARCH COUNCIL AND AFFILIATED PROVINCIAL CENTERS, AND THE PAKISTAN EDIBLE OILS CORPORATION. AN INTER-MINISTERIAL EXECUTIVE COMMITTEE HAS BEEN FORMED TO OVERSEE THE PROGRAM AND A PC-1 (GOVERNMENT'S PROJECT PAPER AND BUDGET REQUEST) IS NOW UNCLASSIFIED

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BEING PREPARED BY THE PAKISTAN EDIBLE OILS CORPORATION. WE WILL BE WATCHING DEVELOPMENTS IN THIS AREA CLOSELY.

10. WE BELIEVE THE AIDE MEMOIRE'S PROJECTIONS OF DOMESTIC OIL PRODUCTION IN 1977/78 ARE TOO HIGH. A YIELD OF 138,000 TONS OF COTTON SEED IS PLANNED FROM A TARGET CROP OF 3.5 MILLION BALES. (THIS COMPARES TO APPROXIMATELY 71,000 TONS FROM 2.2 MILLION BALES IN 1976/77.) WHILE THE CURRENT COTTON CROP IS LIKELY BE HIGHER THAN LAST YEAR'S. WE BELIEVE AN OIL YIELD OF 100,000 TONS OR SO WOULD BE MORE REALISTIC. SIMILARLY WE DO NOT SEE A BASIS FOR RAISING THE ESTIMATED YIELD FROM RAPE AND MUSTARD ABOVE THE 1976/77 YIELD, APPROXIMATELY 90,000 TONS.

11. IN VIEW OF THE ABOVE, THE PROJECTED IMPORT LEVEL OF 227,000 TONS APPEARS TO BE TOO LOW. THE JUNE 1976 AIDE MEMOIRE ON EDIBLE OIL REQUIREMENTS ALSO OVERESTIMATED DOMESTIC PRODUCTION AND UNDERESTIMATED IMPORT REQUIREMENTS. BASED ON THE ANALYSIS ABOVE WE BELIEVE THAT IMPORTS OF ABOUT 280,000 TONS WILL BE NEEDED IN JULY 1, 1977 TO JUNE 30, 1978.

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12. IN ADDITION TO AIDE MEMOIRE AND REQUEST DISCUSSED ABOVE, THE GOVERNMENT HAS PRESENTED A SUPPLEMENT WITH A REQUEST FOR ADDITIONAL PL 480 TITLE 1 VEGETABLE OIL TO COVER THE PERIOD JULY 1, 1978 TO SEPTEMBER 30, 1978, OR THE BALANCE OF U.S. FY 1978. DURING THIS THREE MONTH PERIOD THE GOVERNMENT PROJECTS GHEE PRODUCTION AT 99,250 TONS AND EDIBLE OIL REQUIREMENTS FOR GHEE MANUFACTURING AT 109,148 TONS. SINCE THERE WILL BE PRACTICALLY NO DOMESTIC PRODUCTION OF OILS DURING THIS PERIOD (THE COTTON CROP HARVEST NORMALLY BEGINS IN OCTOBER) THE TOTAL EDIBLE OIL REQUIREMENT JULY/SEPTEMBER 1978 REPRESENTS AN ADDITIONAL IMPORT NEED. FYI. IMPORTS DURING THE JULY/SEPTEMBER 1977 PERIOD TO TOTALED APPROXIMATELY 73,000 TONS. OF THESE, 57,000 TONS WERE ON THE HIGH SEASON JUNE 30, 1977 AND ARE CONSIDERED BY THE GOP AS PART OF THE CLOSING STOCK POSITION (142,000 TONS) ON JUNE 30, 1977. THE REMAINING 16,000 TONS ARE PART OF THE GOP'S 1977/78 IMPORT PLAN. THERE

ARE, IN ADDITION 33,000 TONS ON ORDER WHICH ARE SCHEDULED TO ARRIVE IN OCTOBER/NOVEMBER 1977. THE 16,000 TONS PLUS THE 33,000 TONS ON ORDER COMPRISE A TOTAL OF 49,000 TONS ALREADY ARRANGED IN THE TABLE IN PARA 13 BELOW. END FYI. THUS THE GOVERNMENT NOW ESTIMATES IMPORTS JULY , 1977 TO JUNE 30, 1978 AT 227,000 TONS (PER THE AIDE MEMOIRE) AND 109,000 TONS FOR JULY 1 TO SEPTEMBER 30, 1978, OR A TOTAL FOR THE 15 MONTHS OF 336,000 TONS. THIS WOULD BE COMPOSED OF 150,000 TONS PALM
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OIL AND 186,000 TONS SOYBEAN OIL.

13. WE BELIEVE THE 15 MONTH GOVERNMENT PROJECTION IS CONSERVATIVE AND THE EDIBLE OIL IMPORTS COULD BE IN THE 340,000 TO 390,000 TON RANGE DURING THIS PERIOD, DEPENDING ON WHETHER OR NOT

STOCKS ARE DRAWN DOWN. THE FOLLOWING IS A COMPARISON OF THE CURRENT GOVERNMENT AND MISSION ESTIMATES OF EDIBLE OIL IMPORTS FOR THE 15 MONTHS BASED ON TWO DIFFERENT ASSUMPTIONS OF STOCK LEVELS.

EDIBLE OIL IMPORTS - JULY 1, 1977 TO SEPT. 30, 1978

(000'S OF TONS)

	GOVERNMENT PROJECTION	MISSION PROJECTION(A)	MISSION PROJECTION(B)
TOTAL IMPORT REQUIREMENT	336	390	340
JULY 1, 1977 TO JUNE 30, 78(227)		(280)	(280)
JULY 1, 1978 TO SEPT 3, 78(109)		(110)	(60)
LESS IMPORTS ALREADY	49	49	49
ARRANGED			
BALANCE TO BE ARRANGED	287	341	291
OF WHICH PALM OIL	(91)	(91)	(91)
SOYBEAN OIL - U.S.	(196)	(250)	(200)
ENDING STOCKS	142	142	92

A) UNDER MISSION PROJECTION (A), WE ARE ASSUING CLOSING STOCKS (WHICH INCLUDES BOTH OIL IN COUNTRY AND OIL ON THE HIGH SEAS) OF APPROXIMATELY 142,000 TONS ON JULY 1, 1978 WILL BE MAINTAINED THROUGH THE ENSUING 3 MONTHS. THUS ALMOST THE ENTIRE DOMESTIC EDIBLE OIL REQUIREMENT FOR THE JULY/SEPTEMBER 1978 PERIOD WOULD BE MET WITH ADDITIONAL IMPORTS. WE ALSO ARE ASSUMING THAT THE ADDITIONAL IMPORTS WILL CONSIST ENTIRELY UNCLASSIFIED

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OF SOYBEAN OIL.

B) UNDER MISSION PROJECTIONS (B), WE ASSUME JULY 1, 1978 STOCK LEVEL WAS HIGH IN ANTICIPATION OF THE JULY - SEPTEMBER QUARTER WHICH WILL PROBABLY BE ALMOST ENTIRELY DEPENDENT ON IMPORTED OILS. IT ASSUMES DOMESTIC OIL WILL START TO BECOME AVAILABLE DURING THE OCTOBER-DECEMBER QUARTER. FINALLY, IT RECOGNIZES THAT 92,000 TONS WOULD MEET CONSUMPTION NEEDS FOR APPROXIMATELY ONEEQUARTER.

C) WE ASSUME GOP COURSE OF ACTION WILL DEPEND TO A LARGE EXTENT ON FINANCING AND AVAILABILITY AND RELATIVE PRICES OF PALM AND SOYBEAN OIL.

14. TAKING INTO CONSIDERATION UMR REQUIREMENTS, WE BELIEVE THAT THE REMAINING EDIBLE OIL IMPORT NEED SHOULD BE MET TO THE MAXIMUM EXTENT FEASIBLE WITH TITLE 1 FINANCING. PAKISTAN'S WIDENING TRADE DEFICIT AND BALANCE OF PAYMENTS GAP, REDUCED FOREIGN EXCHANGE RESERVES, DEBT SERVICE BURDEN, AND LOW PER CAPITA INCOME ALL ARGUE FOR PROVIDING A LARGE PART OF THE OIL ON CONCESSIONAL TERMS. USED WISELY WE BELIEVE TITLE 1 CAN ENCOURAGE AND

SUPPORT GOVERNMENT EFFORTS TO INCREASE DOMESTIC OIL PRODUCTION. THE ELABORATION AND IMPLEMENTATION OF A COMPREHENSIVE PROGRAM TO EXPAND SIGNIFICANTLY DOMESTIC OILSEED PRODUCTION HAS BEEN A CENTRAL THEME TO TITLE 1 NEGOTIATIONS AND AGREEMENTS FOR THE PAST SEVERAL YEARS.

15. IN VIEW OF THE ABOVE, WE URGE FAVORABLE ACTION AT THIS TIME ON AN INITIAL TITLE 1 ALLOCATION OF 100,000 TONS OF SOYBEAN OIL WITH 50,000 TONS TO BE SHIPPED IN CY 1977. WE WILL BE REFINING OUR JUDGMENT ON AVAILABILITIES -- AND WILL KEEP YOU INFORMED -- AS MORE INFORMATION IS RECEIVED THIS FALL ON THE SIZE AND YIELD OF THE COTTON CROP. SELF-HELP COMMITMENTS FOT THE INITIAL ALLOCATION WILL BE FOCUS ON IMPLEMENTATION OF THE GOVERNMENT'S OILSEED STRATEGY SUMMARIZED IN THE JUNE 1977 AIDE MEMOIRE.

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16. WE ARE CONSIDERING RECOMMENDING A LOAN FORGIVENESS PROVISION IN THE INITIAL FY 1978 TITLE 1 AGREEMENT, WITH FIRST PRIORITY ON USE OF FUNDS TO SUPPORT CRITICAL ELEMENTS OF THE GOVERNMENT'S OILSEED PRODUCTION STRATEGY SUMMARIZED ABOVE. WE WILL PURUSE THIS FURTHER WITH THE GOVERNMENT AFTER RECEIPT OF AN INITIAL FY 1978 ALLOCATION.

17. PLEASE INFORM US SOONEST OF STATUS OF FY 1978 TITLE 1 ALLOCATION OF EDIBLE OIL.
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